

**REPORT OF THE AUDIT OF THE
BULLITT COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



**CRIT LUALLEN
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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kenneth Rigdon, Bullitt County Judge/Executive
Honorable Nora McCawley, Bullitt County Clerk
Members of the Bullitt County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Bullitt County, Kentucky, for the year ended December 31, 2002.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Bullitt County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BULLITT COUNTY CLERK

**For The Year Ended
December 31, 2002**

Kapp & Company, PLLC, has completed the Bullitt County Clerk's audit for the year ended December 31, 2002. We have issued a qualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly, except for the correct allocation of some individual account balances.

Financial Condition:

Excess fees increased by \$72,937 from the prior calendar year, resulting in excess fees of \$446,600 as of December 31, 2002. Revenues increased by \$840,215 from the prior year and disbursements increased by \$767,278.

Report Comments:

- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office
- The County Clerk Should Settle Excess Fees With Fiscal Court By March 15th
- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Bullitt County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in the accompanying Comments and Recommendations, the Clerk did not maintain complete and accurate records of the financial activities of the Bullitt County Clerk's office for calendar year 2002. Because of these deficiencies in the Clerk's financial records, we are unable to determine the correct allocation of some individual account balances. We have prepared the bank reconciliation and have determined that the excess fees due Fiscal Court are presently fairly.

In our opinion, except for the individual account balances discussed above, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the Bullitt County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office
- The County Clerk Should Settle Excess Fees With Fiscal Court By March 15th
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
October 3, 2003

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Fees For Services		\$	25,219
Fiscal Court			14,211
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,611,841	
Usage Tax		5,799,133	
Tangible Personal Property Tax		4,647,655	
Licenses-			
Marriage		15,663	
Beer and Liquor		2,635	
Deed Transfer Tax		290,361	
Delinquent Tax		461,657	12,828,945
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	43,600	
Real Estate Mortgages		206,384	
Chattel Mortgages and Financing Statements		171,629	
Powers of Attorney		4,298	
All Other Recordings		98,412	
Charges for Other Services-			
Candidate Filing Fees		4,420	
Copywork		26,719	555,462
Other:			
Bad Checks Redeposited	\$	30,659	
Miscellaneous		107,150	137,809
Interest Earned			21,525
Total Receipts		\$	13,583,171

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 NORA MCCAWLEY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,199,606

Usage Tax 5,615,585

Tangible Personal Property Tax 1,734,271

Licenses, Taxes, and Fees-

Delinquent Tax 63,308

Legal Process Tax 60,866

Candidate Filing Fees 2,280 \$ 8,675,916

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 525,234

Delinquent Tax 49,990

Deed Transfer Tax 276,899

Occupational Licenses 2,423 854,546

Payments to Other Districts:

Tangible Personal Property Tax \$ 2,201,101

Delinquent Tax 235,388 2,436,489

Payments to Sheriff

5,026

Payments to County Attorney

69,365

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 554,099

Voting Machine Custodian 3,372

Employee Benefits-

Employer's Share Social Security 45,624

Employer's Share Retirement 39,597

Employer's Paid Health Insurance 44,719

Contracted Services-

Software 13,200

Indexing 32,507

Printing and Binding 12,046

Materials and Supplies-

Office Supplies 101,385

Computer 60,938

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 NORA MCCAULEY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements (Continued)

Other Charges-			
Conventions and Travel	\$	431	
Dues		5,035	
Postage		6,780	
Other Expenses		53,989	
Refunds		38,587	
Returned checks		3,638	
		<u>3,638</u>	\$ 1,015,947
Total Disbursements			<u>\$ 13,057,289</u>
Net Receipts			\$ 525,882
Less: Statutory Maximum	\$	75,600	
Training Incentive		<u>730</u>	<u>76,330</u>
Excess Fees			\$ 525,882
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for 2002			<u><u>\$ 522,282</u></u>

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of October 21, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Escrow Account

The Clerk has an account used for mechanic and material lien bonds. The account had one bond of \$3,900. The account earned interest of \$62 during calendar year 2002. The balance in the account was \$4,183 as of December 31, 2002.

Note 5. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. There was an unexpended grant balance of \$372 at the beginning of the calendar year. The account earned interest of \$5 during calendar year 2002. The unexpended grant balance is \$377 as of December 31, 2002.

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COMMENTS AND RECOMMENDATIONS

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office

During the course of our audit, we noted the following deficiencies in the accounting records of the Clerk's office:

- The Clerk did not prepare and file the quarterly financial report for any of the quarters of 2002 in the format required by the Department for Local Government.
- The Clerk did not prepare or publish an annual settlement for 2002 required by KRS 424.120.
- The Clerk did not prepare bank reconciliations for the fee account.
- It appears that the Social Security and Medicare withholdings are being incorrectly computed on employees W-2's.

County Clerk's Response:

I will try to correct all for the following year.

The County Clerk Should Settle Excess Fees With Fiscal Court By March 15th

The County Clerk is required by KRS 64.152 to provide a statement of receipts and expenditures of the preceding calendar year, and to settle excess fees with Fiscal Court by March 15th. For calendar year 2001, the County Clerk still has not settled with Fiscal Court as of October 3, 2003. For calendar year 2002, the County clerk has not settled with Fiscal Court as of October 3, 2003. We recommend that the County Clerk remit \$373,663 to Fiscal Court for the 2001 excess fees and \$446,600 for the 2002 excess fees as soon as possible.

County Clerk's Response:

I will settle with Fiscal Court as soon as possible. The next court date is October 7, 2003.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should periodically agree daily checkout totals to receipts ledger and deposit slip.

BULLITT COUNTY
NORA MCCAULEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Clerk should agree monthly reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Clerk's initials.

County Clerk's Response:

None.

PRIOR YEAR:

STATE LAWS AND REGULATIONS:

The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office

This has not been corrected and is repeated in this report.

The Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Enter Into A Written Agreement To Protect Deposits

This has been corrected for 2002.

The County Clerk Should Settle Excess Fees With Fiscal Court By March 15th

This has not been corrected and is repeated in this report.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Bullitt County Clerk for the year ended December 31, 2002, and have issued our report thereon dated October 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Bullitt County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Settle Excess Fees With Fiscal Court By March 15th

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bullitt County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office
- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
October 3, 2003

